HIGHWAYS REVOLVING FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2004

105-00285/

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SASKATCHEWAN

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Highways Revolving Fund as at March 31, 2004 and the statements of operations and accumulated operating surplus/deficit and changes in accumulated net expenditure for the year then ended. The Revolving Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Revolving Fund as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
June 24, 2004

Fred Wendel, CMA, CA
Provincial Auditor

HIGHWAYS REVOLVING FUND
BALANCE SHEET
As At March 31

	2004	2003
ASSETS		
Current:		
Accounts receivable	$ 4,766,170	$ 2,983,323
Inventories	2,315,815	2,479,469
	7,081,985	5,462,792
Non-current:		
Construction, maintenance and other equipment (Note 5)	-	52,238,570
Capital lease vehicles (Note 6)	-	2,635,932
	-	54,924,502
	$ 7,081,985	$ 60,387,294
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable	$ 2,873,244	$ 2,138,007
Current portion of obligation under capital leases (Note 6)	-	705,883
Unearned Revenue	85,975	12,160
	2,959,219	2,856,050
Non-current liabilities:		
Long-term obligation under capital leases (Note 6)	-	2,374,445
Accumulated net expenditure (Statement 3)	3,703,920	55,207,031
	3,703,920	57,581,476
Fund equity:		
Accumulated operating surplus/(deficit) (Statement 2)	418,846	(50,232)
	$ 7,081,985	$ 60,387,294

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS/DEFICIT
For the Year Ended March 31

	2004 Budget (Note 10)	2004 Actual	2003 Actual
Revenue:			
Equipment Rental	$ 21,427,000	$ 23,280,745	$ 22,261,724
Custom Work and Other	4,350,000	5,715,222	3,326,751
Store Sales & Labour	2,300,000	2,215,999	2,341,680
Total revenue	$ 28,077,000	$ 31,211,966	$ 27,930,155
Expenses:			
Repair	$ 5,580,000	$ 5,784,442	$ 6,442,906
Operating	5,838,000	6,417,068	6,374,705
Amortization	4,338,000	5,002,466	4,814,724
Custom Work	4,161,000	5,733,843	3,283,748
Store Sales & Labour	2,300,000	2,214,414	2,341,747
Direct Overheads	3,998,000	3,703,466	3,533,916
Direct expenses	$ 26,215,000	$ 28,855,699	$ 26,791,746
Gross margin	$ 1,862,000	$ 2,356,267	$ 1,138,409
General Overheads	$ 1,612,000	$ 1,546,377	$ 1,584,710
Net income (loss) from operations	$ 250,000	$ 809,890	$ (446,301)
Loss on sale of equipment	(250,000)	(340,812)	(133,494)
Net income (loss)	$ -	$ 469,078	$ (579,795)
Accumulated operating (deficit) surplus, beginning of year	$ (50,232)	$ (50,232)	$ 529,563
Accumulated operating surplus/(deficit), end of year - to Statement 1	$ (50,232)	$ 418,846	$ (50,232)

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
STATEMENT OF CHANGES IN ACCUMULATED NET EXPENDITURE
For the Year Ended March 31

	2004	2003
Financing required for (provided by) operating activities:		
Net (income) loss	$ (469,078)	$ 579,795
Items not affecting cash		
- amortization	(5,002,466)	(4,814,724)
- loss on sale of equipment	(340,812)	(133,494)
Net change in working capital items related to operations (Note 8)	810,141	(909,723)
	$ (5,002,215)	$ (5,278,146)
Financing required for (provided by) investing activities:		
Purchase of equipment	7,748,014	6,914,320
Proceeds from sale of equipment	(491,312)	(269,662)
	$ 7,256,702	$ 6,644,658
Financing required for financing activities:		
Paydown in obligation under the capital lease	$ 825,694	$ 669,471
Net increase in financing requirements	$ 3,080,181	$ 2,035,983
Accumulated net expenditure, beginning of year	55,207,031	53,171,048
Transfer of capital assets to General Revenue Fund	(54,583,292)	-
Accumulated net expenditure, end of year - to Statement 1	$ 3,703,920	$ 55,207,031

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2004

1. Authority and Definition of Reporting Entity

The authority for this Revolving Fund was originally contained in Section 21 of *The Highways Act* and is continued under Section 7 of *The Department of Highways and Transportation Act, 1997*. The purpose of the Revolving Fund is to provide a system of accounting that accumulates the costs of equipment, materials and labour used in the provision of construction and maintenance services. These costs are charged back to the Department and other parties on an equitable basis.

2. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. These financial statements do not present a cash flow statement because the required cash flow information is readily apparent from the Statement of Changes in Accumulated Net Expenditure and Note 8. The following accounting policies are considered significant:

a) Net Financing Requirements

The net financing requirements is the cash flow from/(to) the General Revenue Fund. It represents the total annual financing requirements resulting from net capital acquisitions, working capital changes and net cash flows from operations.

b) Accumulated Net Expenditure

The accumulated net expenditure of the Revolving Fund includes the following:

i) working capital advanced by the Minister of Finance as at March 31, 1982 to the Revolving Fund;

ii) the net increase/(decrease) in financing requirements for each fiscal year thereafter; and

iii) the book value of assets acquired at no charge from another government agency.

c) Inventories

Inventories are valued at the lower of original cost, as calculated on a moving average basis for each shop, and net realizable value.

d) Capital Assets

i) Power Equipment

Construction and maintenance equipment over $500 is amortized on a unit of use basis. The amortization rate per hour of use for each item is calculated to allocate the capital cost of that item, less residual value, over the life expectancy of the asset.

Tractors	3,000 to 10,400 hours
Motor Graders	14,000 to 18,000 hours
Heavy Trucks	3,750 to 15,000 hours
Trailers	2,000 to 12,000 hours
Construction Equipment	2,000 to 16,000 hours

ii) Computer Systems

System costs over $500 are amortized on a straight-line basis at the rate of 20% per year.

iii) Computer Software

Software costs over $500 are amortized on a straight-line basis at the rate 33 1/3 % per year.

iv) Capital Lease Vehicles

Capital lease vehicles are amortized on a straight-line basis over the term of the lease. The typical lease term for these units is 6 years. Major additions or modifications made to motor vehicle units leased from the SPMC (a related party) are treated as capital cost additions. Amortization on capital cost additions is calculated on a straight-line basis over the remaining term of the lease for that unit.

v) Other

Salt storage bins, asphalt tanks and cold storage buildings are amortized on a straight-line basis at a rate of 5% per year.

Office equipment and furniture is amortized on a straight-line basis at a rate of 25%

For all other sundry, survey, repair shop, amortization is calculated as follows:

- Items costing $500 or more are amortized on the straight-line basis at a rate of 10% per year.

e) Revenue Recognition

Sales of the Revolving Fund include the following:

i) Equipment Rental Revenue

The rental rates charged by the Revolving Fund for use of its construction and maintenance equipment are calculated to recover the following Revolving Fund costs:

- amortization
- repair and overhaul
- operating costs of fuel, oil and licence registration and insurance fees; and
- administration costs of the stores and repair depots and Revolving Fund office.

Each of the foregoing components of the rental rate is reviewed annually, revised as required, and approved by Treasury Board.

ii) Custom Work and Other Revenue

The Revolving Fund uses the percentage of completion method to recognize construction revenue on custom work.

For the 2003-2004 fiscal year, other revenues amount to $ 35,455 and custom work revenues is $ 5,679,767.

iii) Store Sales and Labour

Store Sales and Labour rates are calculated to recover the Revolving Fund's direct costs. All sales are to the Department of Highways and Transportation.

f) Surcharges

Surcharges levied by the Revolving Fund pursuant to Treasury Board directives are required to be returned to the General Revenue Fund. Any unremitted surcharges are recorded as a liability.

g) Capital Lease Vehicles

Vehicles taken on lease terms which transfer substantially all of the benefits and risks of ownership to the Revolving Fund are accounted for as capital leases.

3. Authorized Financing

Subsection 7(6) of *The Department of Highways and Transportation Act, 1997* specifies that the maximum amount of accumulated net expenditure which may be outstanding at any time will be set by order of the Lieutenant Governor in Council. A maximum amount of $65,000,000 was established in February 2002.

4. Disposition of Accumulated Operating Surplus or Deficit

Treasury Board controls the operations of the Revolving Fund, in part by monitoring the amount of its accumulated operating surplus/deficit. If the amount falls above or below the limit specified by Treasury Board, management is responsible to present a plan to address the excess surplus/deficit for approval by Treasury Board. Plans may include, but are not limited to, payment of excess surpluses to, or requests for additional funding from, the General Revenue Fund. The limit for the Highways Revolving Fund is $1,000,000.

5. Construction, Maintenance and Other Equipment

In January 2004, Treasury Board approved the transfer of the Revolving Fund's capital assets to the Department of Highways and Transportation. This transfer occurred on March 31, 2004 at net book value. The assets' cost of $100,873,152 and accumulated amortization of $45,729,516 have been reduced to $nil and the accumulated net expenditure has been reduced by the net book value of $55,143,636.

6. Capital Lease Vehicles

In January 2004, Treasury Board approved the transfer of the Revolving Fund's capital assets, including capital lease vehicles, to the Department of Highways and Transportation. This transfer occurred on March 31, 2004 at net book value. The assets' cost of $5,793,442 and accumulated amortization of $2,573,712 have been reduced to $nil and the accumulated net expenditure has been reduced by the net book value of $3,219,730. In addition, capital lease obligations valued at $3,780,074 were transferred to the Department on March 31, 2004, which increased the accumulated net expenditure by this amount.

7. Expenditures

The Revolving Fund's direct expenses and general expenses are classified as follows:

	2004	2003
Operating Expenses	$ 17,223,285	$ 15,915,029
Salaries	7,862,663	7,313,049
Amortization	5,002,466	4,814,724
Other	313,662	333,654
	$ 30,402,076	$ 28,376,456

8. Net Change in Working Capital Items Related to Operations

	2004	2003
Increase/(decrease) in accounts receivable	$ 1,782,847	$ (57,357)
Decrease in inventories	(163,654)	(490,733)
Increase in accounts payable	(735,237)	(349,473)
Increase in unearned revenue	(73,815)	(12,160)
	$ 810,141	$ (909,723)

9. Related Party Transactions

These financial statements include transactions with related parties. The Revolving Fund is related to all Saskatchewan Crown agencies such as departments, corporations, agencies, boards and commissions under the common control of the Government of Saskatchewan. Also, the Revolving Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are settled on normal trade terms. These transactions, and amounts outstanding at year-end, are as follows:

Category (as per Financial Statements)	2004	2003
Revenue (Department of Highways and Transportation)	$ 25,496,743	$ 24,603,404
Accounts Receivable (Department of Highways and Transportation)	1,686,930	1,481,795
Expenses (Various Crown Corporations)	1,790,755	1,246,669
Capital Lease Principal Payments (Saskatchewan Property Management Corporation)	825,694	669,471

In addition, the Revolving Fund pays provincial sales tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

In accordance with established government policy, the Revolving Fund has not been charged with certain costs including occupancy, financing, certain information system support and certain administrative costs. These costs have been absorbed by various departmental appropriations and therefore, no provision for such costs are reflected in these financial statements.

10. Budget

These amounts are included in the budget submitted to Treasury Board for approval. Treasury Board approves the Revolving Fund's budget annually.

11. Financial Instruments

The Revolving Fund's financial instruments include accounts receivable and accounts payable. Due to their immediate and short-term nature, the fair value of these instruments approximates the carrying value.

The fair value of the accumulated net expenditure has been omitted because it is not practicable to determine the fair value with sufficient reliability.

12. Commitments

The Revolving Fund is committed to purchasing construction and maintenance equipment and other goods and services valued at $1,521,489 (2003-$1,402,000).

13. Amount Reported in the Public Accounts

The net expenditure of the Revolving Fund reported in the Public Accounts is the net income/(loss) of the Revolving Fund adjusted for the following differences in accounting policies between the Revolving Fund and the General Revenue Fund

	2004	2003
Net income (loss)	$ 469,078	$(579,795)
Decrease in inventory	163,654	490,733
Increase in construction, maintenance and other equipment	(2,815,719)	(2,535,877)
(Increase) in capital lease vehicles	(583,798)	(651,230)
Increase in obligation under capital leases	699,746	821,196
Amounts not included in Public Accounts due to timing	(203,271)	257,055
Net expenditure reported in Public Accounts	$ (2,270,310)	$ (2,197,918)

14. Subsequent Event

On April 1, 2004, the Highways Revolving Fund transferred all assets, liabilities and Fund equity remaining in the Fund to the Department of Highways and Transportation. Assets' valued at $7,081,985, liabilities valued at $6,663,139 and Fund equity of $418,846 were transferred.